

Full Cost Decision Memorandum: Technical burden/overhead (SA-08)

Issue:

How does the Center handle technical burden/overhead costs for technical organizations?

Source / reference:

LaRC Office of the Chief Financial Officer (OCFO)

Background:

Generally accepted accounting principles (GAAP) define overhead/indirect costs as those costs that cannot be easily and conveniently traced to a unit of product or other cost object. Activity-based costing principles typically assign such indirect costs to end-units using an algorithm or formula. In FY 04, NASA implemented the full cost initiative. Full cost ties all costs (including civil service personnel costs) to programs/projects. In that regard, NASA established a financial structure to account for direct, service and G&A costs. While direct costs are funded via project accounts, cost pools are used to capture indirect costs from services and G&A. Costs collected within a pool are assigned to projects using an established activity-basis, such as workforce for G&A or shifts for wind tunnels. These activities are necessary for successful project operations, however; they are not directly part of the end-unit (project). In that regard, such indirect costs are classified as overhead/indirect according to GAAP. NASA has some indirect costs, such as legal, human resource, and security, that are easily identifiable and typically captured in the Center general & administrative (G&A) cost pool. Likewise, services for wind tunnels, fabrication, test (simulation & aircraft), utilities and maintenance, and information technology are captured in distinct service pools. The science & engineering (S&E) pool, is used to capture overhead/indirect costs for research and engineering personnel. Full cost has recently revealed additional overhead is being charged directly to project activities. In that regard, clerical and administrative personnel, program office management and associated support costs are currently being charged direct to project activities. Such support activities are typically necessary for effective operations, but are considered overhead/indirect according to GAAP. To ensure optimal operations, the Center needs a clear, concise system to account for such overhead/indirect costs.

Options:

1. Establish program office/product unit sub-pools under the Agency S&E pool classification for each program management organization to capture indirect costs
2. Continue charging program management indirect costs directly to project activities

Decision:

Option 1 - Establish program management sub-pools under the Agency S&E pool classification for each program management organization to capture associated overhead/indirect costs. Many technical organizations at LaRC have S&E sub-pools that converted after the Center re-organization in 2004. In that regard, the Science Directorate, Systems Analysis & Concepts Directorate, Research & Technology Directorate, and Systems Engineering Directorate have S&E pools. Other technical organizations, such as Center Operations and Flight Research Services have similar cost pools to capture indirect costs. To ensure efficient cost management of overhead/indirect costs, new S&E sub-pools will be established for all program management organizations (Flight Projects, Aeronautics, and Exploration Systems & Space Operations). The pools will be used to collect program management indirect costs, to include: facility & related costs, information technology costs, program management labor, program office travel, and program office procurements. The Center may continue to charge project indirect support direct to

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project activities. However, the OCFO will establish a process to track such support costs being charged direct to project activities. The new sub-pools will be established and available for use beginning October 1, 2005.

Approved by LaRC CFO (Ken Winter) 9/7/05